



Shareholder Advocacy

Strategy for socially responsible investing

This article is the second in the series on Mercy investment. VALERIE HEINONEN, OSU explains how, through shareholder activism, investing gives Mercy voice and leverage in the marketplace as well as ways to use our resources to serve the interests of persons in need.

Attention to providing funds for the special needs, housing, healthcare of the elderly, infirm or disabled members of the community and financial support for ministries led many religious orders to invest in corporate stocks and bonds by the 1970s. At the same time two historic issues confronted some mainline Protestant denominations: questions about profiting from investments in corporations supplying the war in Vietnam and requests from sister churches in South Africa that U.S. partners put an end to the role and profits of banks and corporations propping up the apartheid government. The impact spurred debate on connections among theology, justice and investments and this drove the founding of the Interfaith Center on Corporate Responsibility (ICCR).

Today ICCR is a faith-based member coalition of 275 Jewish, Protestant and Roman Catholic institutional investors who use their rights and power as shareholders to change companies from within. These institutions hold investments valued at more than \$120 billion. When socially responsible unions, foundations, universities, public and private pension funds, and investment managers are added in, the estimate climbs to over \$2.1 trillion.

Shareowners in all companies have the right to question management, to attend annual shareholder meetings and to vote on proposals recommended by management and other investors; and some, including the Sisters of Mercy, actually exercise these rights. As socially responsible investors we hold ourselves accountable for ensuring that corporations offer a good return on our investment and respect the common good.

THE SISTERS OF MERCY AS SHAREHOLDER ADVOCATES

Shareholder advocacy is one of four key approaches to socially responsible investing. The others are screening to include or exclude corporations based on their activity, proxy voting and community investing (*see the*

November-December 2007 issue of ¡Viva! Mercy for more on community investing). Advocacy is a powerful tool for encouraging corporations to improve social, environmental and governance performance. Strategies include sponsoring shareholder resolutions, meeting with corporate management, testifying at Congressional and other public hearings, divesting stock, proxy solicitation and organizing/joining actions such as vigils and letter writing campaigns.

Shareholders, as owners of a corporation, have the right to submit proposals for inclusion on the proxy ballot. These resolutions (written requests to management) must comply with certain regulations. A shareholder must own \$2,000 worth of a company's stock for at least one year. Text may not exceed 500 words nor contain materially false or misleading statements. Subject matter must be relevant and may not address ordinary business. Management may ask the Securities and Exchange Commission (SEC) for permission to exclude a proposal that it believes does not meet all requirements. The filers have the right to respond to the company's challenge and usually do so through legal counsel.

The resolution is published in the proxy statement, a booklet that contains governance and financial information, e.g. the board of directors' biographies, executive compensation packages, the number of times board committees met and member compensation. The proxy statement, proxy voting ballot and annual report are mailed to all shareholders.

During the company's annual meeting, the shareholder or the institutional investor's representative moves the resolution, usually with a statement outlining the reasons for filing. Often the chair will make a response and may

engage in a brief exchange with that person or other stockholders. A resolution does not have to get 51 percent of the votes to "win." The Detroit Regional Community requested transparency on General Dynamics' corporate political contributions. The 21 percent vote led the chair to offer a meeting resulting in the report posted at the company's website. A series of resolutions, averaging about 7.6 percent, filed by the St. Louis Regional Community brings Monsanto Company to the table for annual discussions on costs, sustainability, health and international impacts of genetically modified seeds.

The SEC rules on percentages of votes required recognize the imbalance between amounts of stock held by investors such as the Sisters of Mercy and the blocks held by insurance companies and large financial institutions. A proposal must get at least three percent of the vote in its first year, six percent in its second and 10 percent in its third year to remain eligible for resubmission. This is important, particularly when we are raising a new issue. For example, the Merion Regional Community asked DuPont to report on use and phase-out of PFOA, a chemical with potential health and envi-

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Other Mercy Shareholder Advocacy Issues:

- Affordable housing
- Access to and affordability of drugs
- Depleted uranium
- Diversity and violence in the workplace
- Executive compensation
- HIV/AIDS, TB, malaria drug affordability
- Human rights
- Sales to Israel/Palestine
- Toxics in personal care products
- Trafficking of children for sex
- Trafficking of laborers
- Water scarcity

ronmental consequences used to produce Teflon.

Shareholders may need time to understand potential business liabilities and human and environmental risks. This is especially true for weapons-related resolutions. Since 1976, the Sisters of Mercy have been a consistent and visible presence urging Department of Defense contractors to include the values of justice and integrity of creation in ethics codes and to apply them when bidding on contracts for foreign military sales, weapons production and militarization of space. The Regional Community of New Hampshire took such action with Tenneco, Inc.; the Regional Community of Brooklyn did the same with Textron Inc., both of which are highly

diversified multibillion dollar, global companies today.

Perhaps the two most rewarding shareholder outcomes have been the campaigns to end apartheid in South Africa and to promote global environmental standards. The first social policy resolution filed by a religious institution—the Episcopal Church in 1971—asked General Motors to withdraw from South Africa. Shareholder resolutions, demonstrations, student pressure on college trustees to divest from corporations doing business in South Africa, and other disinvestment activity ultimately ended the apartheid government. Almost immediately, investors urged those same banks and corporations to reinvest in the country to ensure a successful transition to democracy. Shared Interest, a

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Mercy Partnership community investment, helped lay practical economic foundations by making loans available for housing and small businesses.

Early environmental resolutions raised concerns about nuclear power plant construction and pollution from nuclear warhead production. Exxon's oil tanker disaster on the Alaskan coast gave rise to the Valdez principles. Now known as the CERES (California Environmental Resources Evaluation System) principles, the objective was to create environmental standards that corporations would be asked to accept and implement. Today investors are asking homebuilders and big box stores for energy efficiency and greenhouse gas reports. The Burlingame Regional Community requested that Chevron publically adopt goals for reducing greenhouse gas emissions from products and operations.

Environmental justice led Mercy Investment Program (MIP) to a joint venture with two South Bronx, New York, agencies: Mercy Center and Sustainable South Bronx (SSB). The non-profits purchased stock in Synagro, the parent of New York Organic Fertilizer Company (NYOFCo), a solid waste processing plant in the Hunts Point section of the Bronx. MIP and SSB filed a resolution asking Synagro/NYOFCo to engage with the



community to produce a facilities report. The 31 percent vote in favor of the request plus the Mercy involvement persuaded management to engage in a nine-month process with the investors; public officials; the local community board; teachers and organizations of youth, mothers and environmentalists. The printed report contains a joint action plan, a commitment to improve plant operation and explanations/diagrams of plant functions. All problems are not resolved but changes are taking place at the plant, the oversight agencies are coordinating and both sides are listening.

As with all struggles to improve human, environmental and governance conditions, shareholder advocacy is one mission among many. The difference is the motivation for using stock portfolios to hold corporations accountable for societal impact. The Sisters of Mercy continue the witness of Catherine McAuley who animated those at centers of wealth, power and influence to share in her efforts to connect the rich to the poor, the influential to those ignored by society and the powerful to the powerless so that together God's work on earth may be accomplished.



Sister Valerie Heinonen is a member of the Ursuline Sisters of Tildonk, a consultant on corporate social responsibility and former staff at the Interfaith Center on Corporate Responsibility. For 30 years, Valerie has been a familiar participant in shareholder meetings across the country representing a number of congregational investment programs, including Mercy Investment Program and Sisters of Mercy, Detroit Regional Community, the Dominican Sisters of Hope and the Ursuline Sisters of Tildonk. She can be contacted at heinonenv@juno.com.